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Tight Oil Extraction Compliance Simplified

By The Moscow Times

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The State Duma has stripped compliance measures from proposed tax incentives for "tight" oil production, a parliamentary official said.

Energy companies have warned that the measures, which will now be reviewed by the upper chamber, would drive up production costs and deter investment.

Russia aims to boost oil production to 10 million barrels per day this decade and needs tight oil to get there.

It is preparing to offer tax incentives to spur investment that will include "fracking," a process involving injecting water and chemicals at high pressure into rock to unlock oil and gas deposits.

Fracking has revolutionized the U.S. energy sector in recent years, bolstering gas and oil supply and lowering energy bills for industry and consumers.

Draft amendments sent to Russia's upper house removed a requirement that would bar oil companies from using existing aboveground infrastructure and force them to re-invest in new transport and metering facilities for their tight oil production.

Such deposits predominantly lie beneath already producing fields, and energy firms are loath to install separate metering equipment.

The Finance Ministry proposed the rules, concerned that without separate metering oil companies might label oil from conventional plays as "tight" oil, thereby avoiding taxes.

"There are no requirements for direct separate metering of oil. The Finance Ministry has dropped it," a parliamentary budget committee official said.

The upper house of parliament must approve the package, which would then go to President Vladimir Putin, who has voiced support for it.

The amendments to Russia's tax code would eliminate a mineral extraction tax for "tight" oil output in the shale of Siberia's Bazhenov formation starting from January 2014 and cut the rate for several other unconventional plays.

Russian producers have already reported 500 million tons, or 3.5 billion barrels, of recoverable reserves of 'tight' oil in the Bazhenov formation.

Russia has 75 billion barrels in recoverable reserves of shale oil, the U.S. Energy Information Administration has estimated, larger than the 58 billion estimated for the United States.

The Energy Ministry is waiting for a final proposal from Rosneft on routes for additional oil deliveries to China, which could go through Kazakhstan, in order to calculate the resource base, Interfax reported.

"Inasmuch as the issue is the long-term period — the intergovernmental agreement is valid until 2018, and could possibly be extended — we especially anticipate the possibility of adjusting the volume of deliveries," Energy Minister Alexander Novak said in an interview with Kommersant.

"Whether there will be a resource base or not will be shown by the final geological prospecting work at certain deposits. There is a great likelihood that these reserves will be confirmed. The Chinese are requesting even more, and [want to know] if we can sign off on bigger amounts. Their need for oil will be growing, because the proportion of coal consumption will be falling," Novak said.

Europe need not worry about a possible decrease in oil deliveries from Russia in association with increased deliveries to China, the minister said. All agreements will be fulfilled in their entirety, he said. "For Russia, Europe will remain the basic strategic direction," he said.

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